

**District of: British Columbia**  
**Division No.: 03 - Vancouver**  
**Court No.: 11-2982095**  
**Estate No.: 11-2982095**

**IN THE MATTER OF THE BANKRUPTCY OF  
ADVENTUS CAPITAL PARTNERS LTD.**

**OF THE CITY OF VANCOUVER  
IN THE PROVINCE OF BRITISH COLUMBIA**

**TRUSTEE'S REPORT TO CREDITORS ON PRELIMINARY ADMINISTRATION**

**September 21, 2023**

**BACKGROUND AND CAUSES OF INSOLVENCY**

**Background**

1. Adventus Realty Trust (“**ART**”) is a private Real Estate Investment Trust (a “**REIT**”) that was formed in early 2012. ART is based in Vancouver, British Columbia, and, together with its affiliates (collectively, “**Adventus**”) invested in suburban commercial real estate in the suburban office markets of Chicago, Illinois and Atlanta, Georgia.
2. Adventus Capital Partners Ltd. (“**ACP**”) is a wholly-owned affiliate of ART that at the date of bankruptcy had six employees and a management office located in Vancouver, British Columbia.
3. Adventus’s real estate portfolio consisted of thirteen income producing properties (some of which include multiple buildings) and one parcel of vacant land. Each of the income producing properties is subject to mortgage debt, with an aggregate total of approximately US\$705 million outstanding.
4. Adventus has a complex organizational structure, as shown in **Appendix A**. Each of the properties is held in a separate US-based special purpose entity, each of which is a limited partnership (each an “**SPE**”). 99.5% of the equity interests in each of the SPEs is held by one of two US-based REITs (“**REIT1**” and “**REIT2**”) that are indirect subsidiaries of ART. The remaining 0.5% of the equity interests in the SPEs are held by the general partners of REIT1 or REIT2, respectively.
5. Pursuant to various management services agreements, ACP undertook management services for the SPEs and management fees were payable to ACP by the SPEs.

## Causes of Insolvency

6. The COVID-19 pandemic and macro-economic factors created strong financial headwinds for Adventus and the US suburban office real estate market generally. Among other things:
  - a) Office space downsizing trends generally led to declining occupancy and nominal new leasing activity for Adventus's real estate portfolio;
  - b) Rapidly rising US interest rates caused significant increase in Adventus's debt service costs in 2022 and 2023 as the majority of Adventus's mortgage debt has variable rates;
  - c) Debt markets in the United States for commercial real estate were highly illiquid for a significant period of time after the COVID-19 pandemic which impacted Adventus' ability to refinance its mortgage portfolio and raise additional capital to fund operations; and
  - d) Adventus had significant capital requirements to maintain and lease the real estate portfolio and did not have sufficient cash flow to continue with such activities.
7. Each of the above factors severely impaired the Adventus's liquidity position and put pressure on Adventus's leveraged capital structure. Adventus's cash needs were expected to continue to exceed the cash generated by the real estate portfolio for the foreseeable future.
8. In June 2022, in an attempt to address the situation, Adventus engaged a global investment bank to conduct a strategic process and explore potential merger, sale or recapitalization opportunities. The process was overseen by a special committee of independent directors of the board. The process involved discussions with multiple interested parties but did not lead to any actionable transaction.
9. In January 2023, following the failure of the strategic process, Adventus formed a restructuring committee comprised of two independent directors and engaged restructuring advisors to explore and evaluate strategic alternatives for addressing its liquidity position and capital structure. This process included engaging in discussions with certain existing stakeholders and third parties to attempt to raise new capital and restructure Adventus's existing debt to permit operations to continue in the ordinary course. These efforts ultimately proved unsuccessful and Adventus was unable to raise any new capital or restructure any of its existing debt.
10. The mortgage debt on all but one of Adventus' properties is in default and "cash sweeps" have been implemented by the lenders whose mortgages are in default, whereby cash flow produced by the properties is retained by the mortgage lender to pay debt service and certain other amounts. Furthermore, the Trustee understands that based on the most recent estimates of value obtained by Adventus, each of its properties has a current estimated realizable value below the level of the applicable mortgage debt.

11. Adventus has also been the subject of other enforcement action by certain of its mortgage lenders due to the defaults under the mortgage debt. One property was recently removed from the portfolio through the foreclosure sale of equity of the relevant SPE pursuant to the *Uniform Commercial Code* by the mortgage lender. Another property has been in receivership for some time, with the potential sale offers for such property failing to reach the Receiver's reserve price at auction on July 27, 2023. A third property was placed into receivership in August 2023.
12. REIT1 and REIT2 are in the process of winding down operations and are in discussions with the applicable parties for the surrender or disposal of the balance of the properties.

## **APPOINTMENT OF TRUSTEE IN BANKRUPTCY**

13. On August 31, 2023, ACP filed an assignment in bankruptcy pursuant to section 49(1) of the *Bankruptcy and Insolvency Act* (the "**BIA**"). A Certificate of Bankruptcy for ACP was issued on the same date by the Official Receiver appointing FTI Consulting Canada Inc. ("**FTI**") as Trustee. A copy of the Certificate of Bankruptcy is attached hereto as **Appendix B**.
14. ART and five other Canadian affiliates of ACP (the "**Canadian Affiliates**") each filed assignments in bankruptcy on July 21, 2023.<sup>1</sup> FTI is also the Trustee of those estates.

## **PRELIMINARY EVALUATION OF ASSETS AND SECURITY INTEREST**

### **Preliminary Evaluation of Assets**

15. The assets of ACP are as follows:
  - a) Cash on hand at the date of bankruptcy;
  - b) Office furniture and equipment;
  - c) Prepaid insurance;
  - d) Outstanding management fees from the SPEs; and
  - e) Equity interests in ART and certain US based general partnership interests.
16. Cash on hand at the date of bankruptcy was C\$13,756 and US\$185.

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<sup>1</sup> Adventus Realty Trust (Estate number 11-2967952), Adventus Realty Services Inc. (11-2967951), Adventus Realty Limited Partnership (Estate number 11-2967950), Adventus Realty Canada Holdings Limited Partnership (Estate number 11-2967949), Adventus Opportunity Fund (Estate number 11-2967947), Adventus Opportunity Services Inc. (Estate number 11-2967948)

17. The estimated realizable value of the other assets is nil.

### **Security Interest**

18. ART as borrower, together with Adventus Realty Canada Holdings LP as co-borrower and ACP, along with the remaining Canadian Affiliates, as guarantors, entered into a Commitment Letter dated July 20, 2021 (the “**Grofondi Loan Agreement**”), with Grofondi Inc. (“**Grofondi**”), pursuant to which Grofondi agreed to provide a non-revolving loan of \$50 million (the “**Grofondi Debt**”). The outstanding amount of the Grofondi Debt as at the date of bankruptcy is estimated to be approximately \$51.6 million.
19. Pursuant to a general security agreement dated July 20, 2021 (the “**ACP GSA**”), the Grofondi Debt is secured by a security interest in all the present and after acquired property of ACP, other than the Excluded Collateral (as defined in the ACP GSA).
20. Pursuant to the ACP GSA, the Excluded Collateral is ACP’s equity interest in Adventus Realty Services Inc. (“**ARSI**”), provided that any amounts or other property distributed by ARSI to ACP in respect of the ARSI equity interest do not form part of the Excluded Collateral.

### **POSSESSION OF BOOKS AND RECORDS**

21. The Trustee has attended the premises of the bankrupt and taken possession of the physical books and records. In addition, copies have been made of the electronic records.

### **CONSERVATORY AND PROTECTIVE MEASURES**

22. The Trustee has frozen the ACP bank accounts and taken steps to take possession of the cash on hand at appointment.
23. The Trustee has not occupied the premises.
24. Given the nature of the assets of the bankrupts as described earlier in this report, the Trustee has taken no further conservatory or protective measures.

### **PROVABLE CLAIMS AND DESCRIPTION OF CREDITORS**

25. The claims disclosed in the statement of affairs of ACP are summarized as follows:
  - a) Secured claim: approximately \$50.0 million; and
  - b) Unsecured claims: approximately \$10.0 million, excluding the deficiency claim of the secured creditor, estimated at approximately \$50.0 million.

26. The secured claim is the estimated amount of the Grofondi Debt.
27. The unsecured creditors are certain of the Canadian Affiliates, having claims totalling approximately \$10.0 million arising from inter-company transactions.

#### LEGAL PROCEEDINGS, TRANSFERS UNDERVALUE, PREFERENCE PAYMENTS

28. Two complaints to the Director of Employment Standards were filed against ACP pursuant to the *Employment Standards Act* of British Columbia by two former executives that had been terminated by ACP in April 2023.
29. The Trustee is not aware of any other legal proceedings commenced against or by ACP.
30. The Trustee does not have funding to undertake an investigation and analysis of whether any payments made in the applicable periods prior to the bankruptcy may constitute preference payments under the BIA. The Trustee has however prepared a summary of payments made by ACP in the three months prior to the date of bankruptcy, as follows:

|                            | <b>12 weeks<br/>commencing<br/>31/5/23</b> | <b>2 weeks<br/>commencing<br/>23/8/23</b> | <b>Total</b>     |
|----------------------------|--|---|------------------|
| <b>C\$ Accounts</b>        | <b>C\$</b>                                 | <b>C\$</b>                                | <b>C\$</b>       |
| Professional Fees          | 337,581                                    | 125,508                                   | 463,089          |
| Payroll                    | 494,035                                    | 73,713                                    | 567,748          |
| Other Third Party          | 179,571                                    | 27,650                                    | 207,221          |
| Intercompany Transfer      | 128,500                                    | 0   | 128,500          |
| <b>Total Disbursements</b> | <b>1,139,687</b>                           | <b>226,871</b>                            | <b>1,366,557</b> |
| <b>US\$ Accounts</b>       | <b>US\$</b>                                | <b>US\$</b>                               | <b>US\$</b>      |
| Director Fees              | 112,406                                    | 0   | 112,406          |
| Other Third Party          | 25,730                                     | 0   | 25,730           |
| <b>Total Disbursements</b> | <b>138,136</b>                             | <b>0</b>                                  | <b>138,136</b>   |

31. The Trustee is not aware of any potential transfers at undervalue.

### **THIRD-PARTY DEPOSITS AND GUARANTEES**

32. The fees and expenses of the Trustee have been guaranteed by REIT1 pursuant to a fee guaranty and retainer agreement dated July 20, 2023 (the “**FGRA**”). The FGRA covers the bankruptcies of ART, ACP and the other Canadian Affiliates. Pursuant to the FGRA, REIT1 has guaranteed the costs of the statutory administration of the estates only, which shall not include fees and expenses of the Trustee or its legal counsel to pursue claims or causes of action of the bankrupt entities. The fee guaranty is limited to \$300,000 in the aggregate for the bankruptcies.
33. Pursuant to the FGRA, REIT1 provided a deposit of \$300,000 to FTI Consulting Canada Inc. in respect of the fee guaranty (the “**Deposit**”). The primary responsibility for the payment of the costs of the Trustee lies with the estate and will be paid first from available realizations of estate assets, if any; the Deposit and guaranty are only accessories covering any unpaid portion of the primary obligation.
34. Pursuant to the FGRA, REIT1 has confirmed that the Deposit did not, directly or indirectly, in whole or in part, come from assets that would otherwise be estate assets. The Deposit shall not be transferred or paid to any trustee which replaces or substitutes FTI as trustee in any of the bankruptcies.

### **TRUSTEE’S INTENTION TO ACT FOR SECURED CREDITOR AND APPOINTMENT OF PRIVATE RECEIVER**

35. There is no current intent for the Trustee to act for the secured creditor.

### **ASSET REALIZATION AND PROJECTED DISTRIBUTION**

36. Based on the information made available to the Trustee, and as noted above, the estimated realizable value of ACP’s assets is nil. Furthermore, any realizations from the assets of ACP would be subject to the secured claim of Grofondi. Accordingly, it is anticipated that there will be no distribution to unsecured creditors of ACP.

### **OTHER MATTERS**

37. The Trustee is an affiliate of FTI Consulting, Inc. Prior to the filing of the assignments in bankruptcy, FTI Consulting, Inc. served as financial advisor to Adventus.

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**FTI Consulting Canada Inc.**

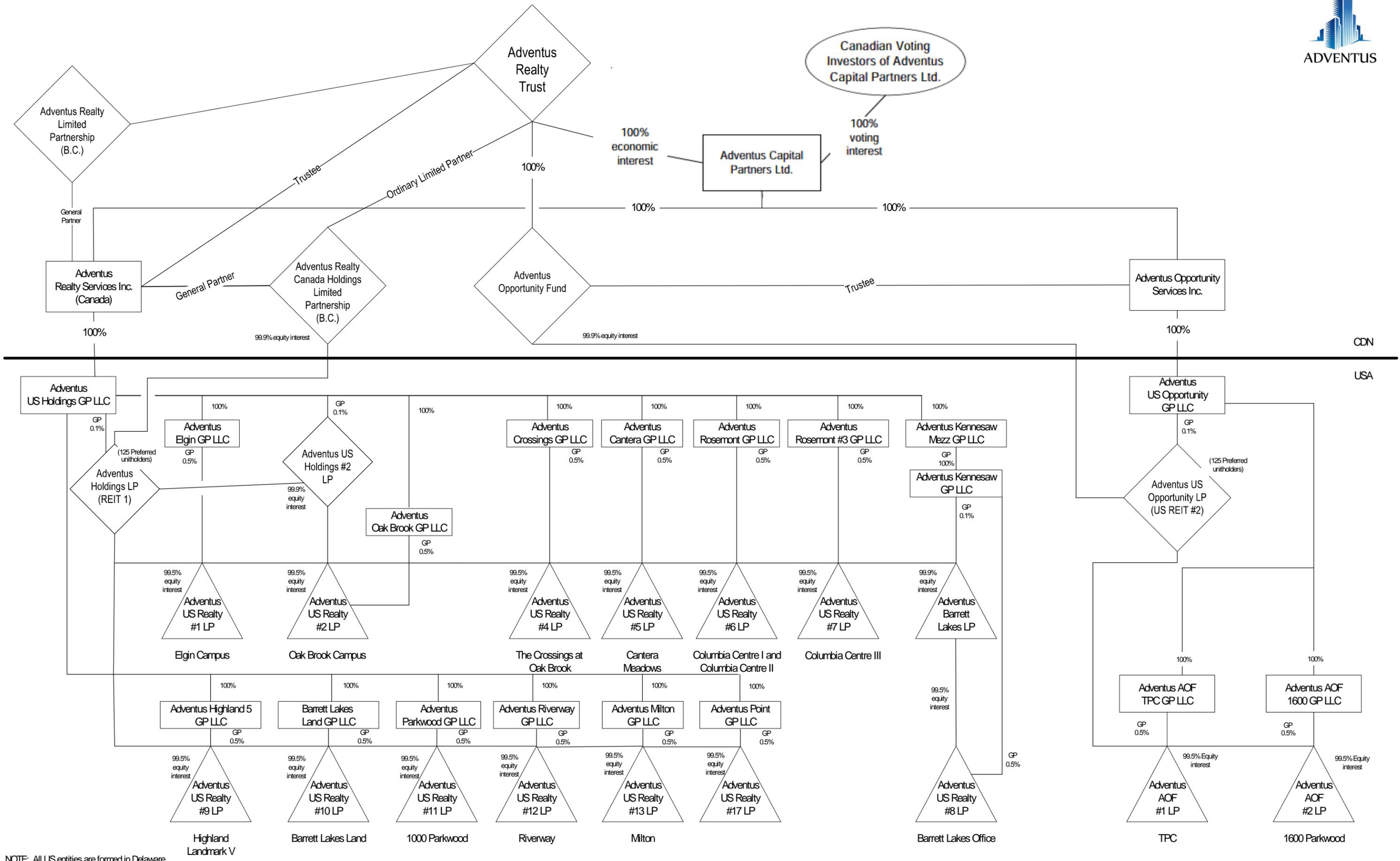
In its capacity as Trustee in Bankruptcy of  
Adventus Capital Partners Ltd.  
and not in its personal capacity

A handwritten signature in blue ink, appearing to read "Mike Clark".

Mike Clark, LIT  
Senior Director

# **Appendix A**

## **Organizational Chart**



NOTE: All US entities are formed in Delaware

# **Appendix B**

## Certificate of Bankruptcy



Industry Canada  
Office of the Superintendent  
of Bankruptcy Canada

Industrie Canada  
Bureau du surintendant  
des faillites Canada

District of: British Columbia  
Division No.: 03 - Vancouver  
Court No.: 11-2982095  
Estate No.: 11-2982095

In the Matter of the Bankruptcy of:

**Adventus Capital Partners Ltd.**

Debtor

**FTI CONSULTING CANADA INC.**

Licensed Insolvency Trustee

Ordinary Administration

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|                              |   |           |        |
|------------------------------|---|-----------|--------|
| Date and time of bankruptcy: | August 31, 2023, 14:58  | Security: | \$0.00 |
| Date of trustee appointment: | August 31, 2023   |           |        |
| Meeting of creditors:        | September 21, 2023, 10:00<br>Via Video Conference<br>Passcode: cZKS7Q<br>Vancouver, British Columbia<br>Canada, |           |        |
| Chair:                       | Trustee   |           |        |

CERTIFICATE OF APPOINTMENT - Section 49 of the Act; Rule 85

I, the undersigned, official receiver in and for this bankruptcy district, do hereby certify that:

- the aforementioned debtor filed an assignment under section 49 of the *Bankruptcy and Insolvency Act*;
- the aforementioned trustee was duly appointed trustee of the estate of the debtor.

The said trustee is required:

- to provide to me, without delay, security in the aforementioned amount;
- to send to all creditors, within five days after the date of the trustee's appointment, a notice of the bankruptcy; and
- when applicable, to call in the prescribed manner a first meeting of creditors, to be held at the aforementioned time and place or at any other time and place that may be later requested by the official receiver.

Date: August 31, 2023, 18:03

E-File/Dépôt Electronique

Official Receiver

300 Georgia Street W, Suite 2000, Vancouver, British Columbia, Canada, V6B6E1, (877)376-9902

**Canada**